Leading USMC CPI Implementation

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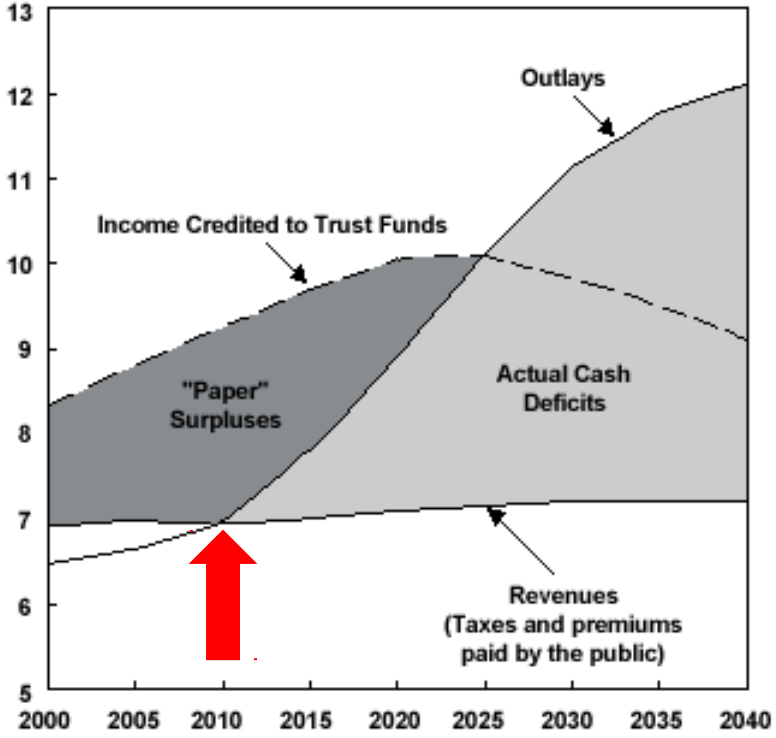
America's Fiscal Tsunami

Projected outlays for Social Security, Medicare, and Medicaid outstrip the programs' revenues sooner than the trust funds reflect and will occur at a very inconvenient time (National Debt, USMC pressures, etc.)
(By calendar year, as a percentage of GDP)

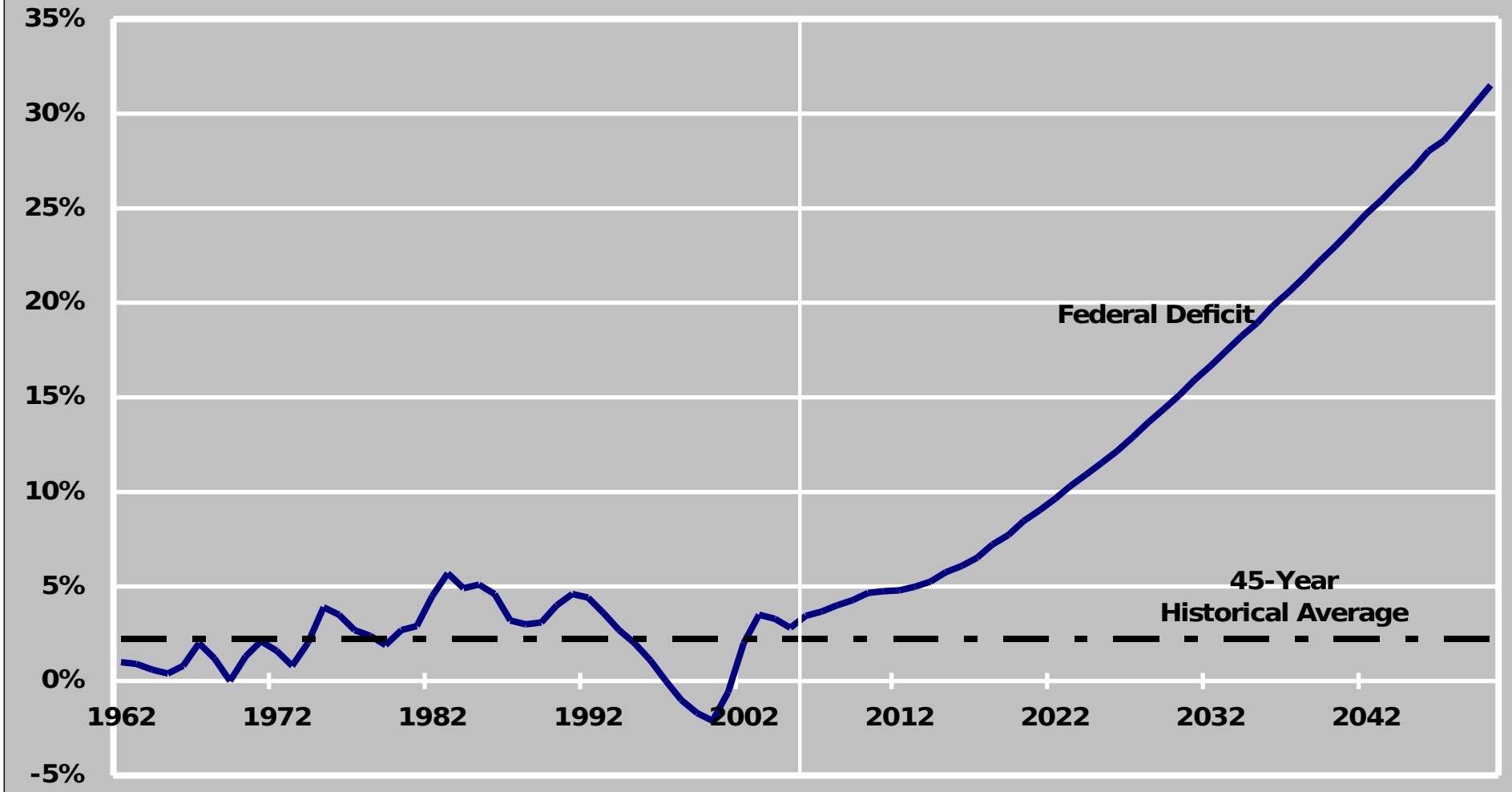


USMC pressures include:
Modernization
Aging equipment
Aging facilities
Increased QOL
GWOT and Reset
202K
(These pressures occur concurrently with challenge at left)

Source: Congressional Budget Office based on Social Security Administration, *The 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (March 26, 2002); and Department of Health and Human Services, Centers for Medicare and Medicaid Services, Office of the Actuary, *2002 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds* (March 26, 2002).

Absent action under current law deficits skyrocket to unprecedented levels

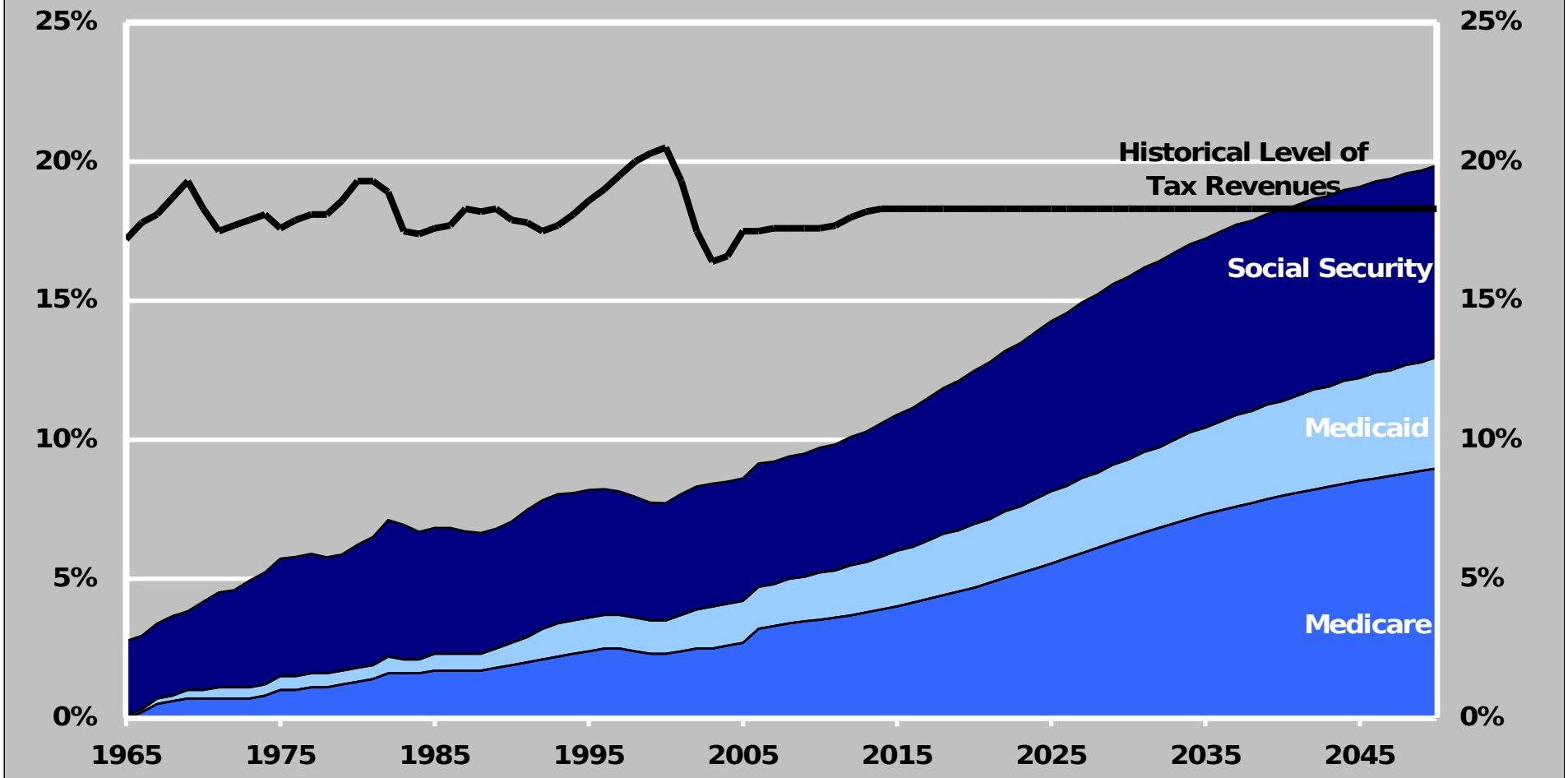
Federal Deficit as a Percentage of GDP



Source: Calculations based on Congressional Budget Office (CBO) and Medicare and Social Security Trustees Data (discretionary spending held constant).

Entitlements will crowd out everything else and collide with historical long-term level of taxes

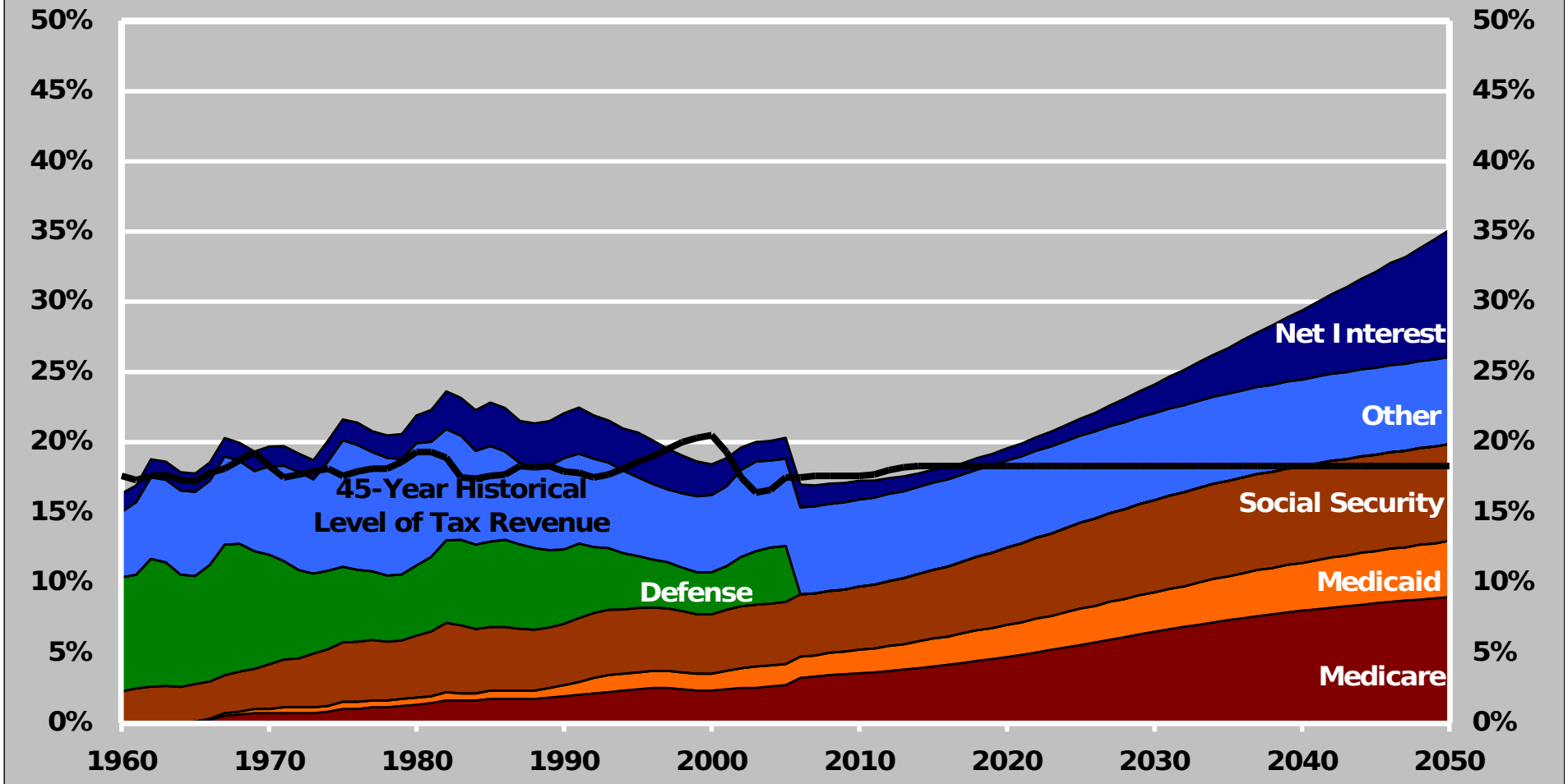
Three Major Entitlements and Tax Revenues as a Percentage of GDP



Source: Spending and Revenues from CBO Long-Term Budget Outlook, December 2005 (Scenario 2 Data), 2006 Social Security and Medicare Trustees Report.

Even eliminating defense won't solve the problem without tackling entitlements.

Total Federal Spending and Tax Revenue as a Percentage of GDP

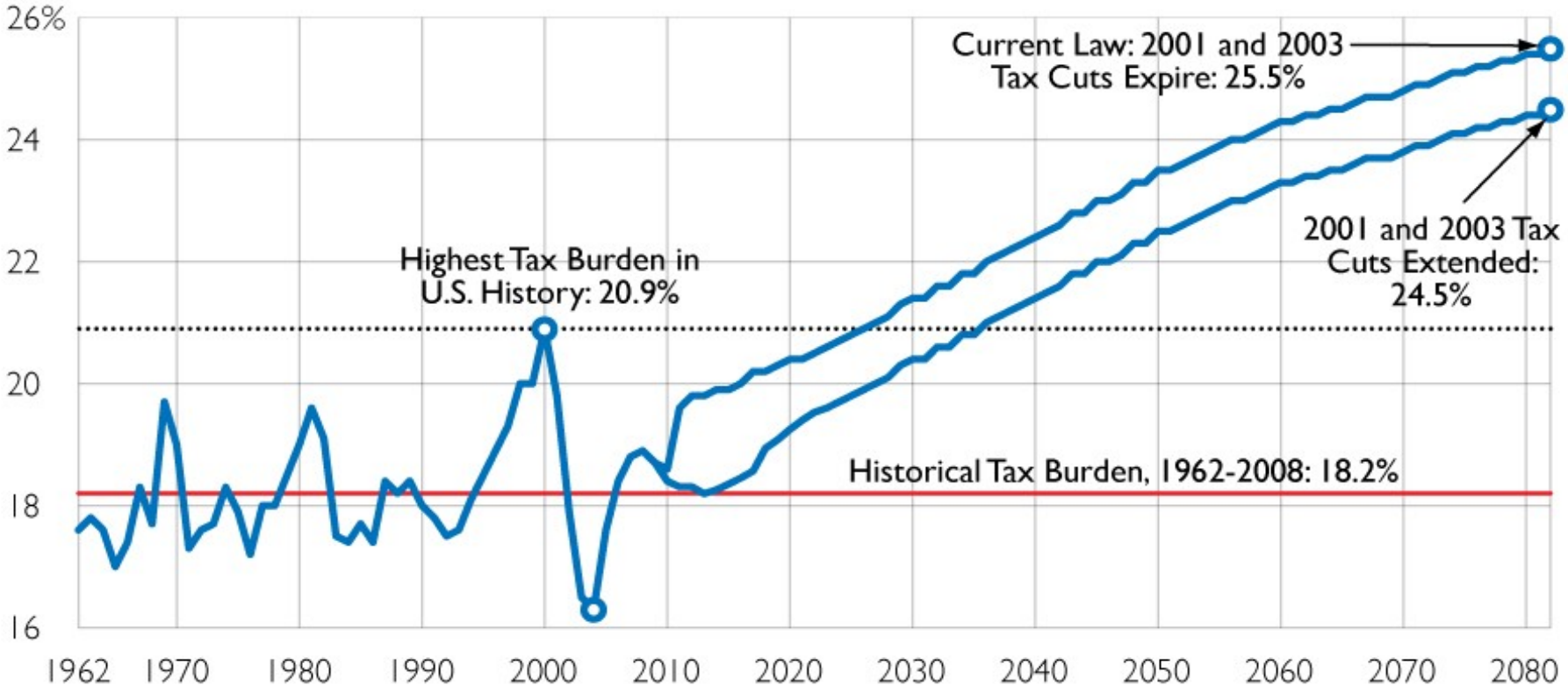


Source: Calculations based on Congressional Budget Office (CBO) and Medicare and Social Security Trustees Data (discretionary spending held constant).

Tax Burden Is Rising to Highest Level in History

Under current law, tax revenues are expected to leap to 25.5 percent of the economy by 2082. Extending the tax cuts would shave only about 1 percentage point off of this burden. AMT and real bracket creep are the biggest drivers of this rising tax burden.

Federal Tax Revenues as a Percentage of GDP, 1962–2082



Source: Heritage Calculations Based on CBO Long-Term Budget Outlook, December 2007 and Budget and Economic Outlook, January 2008.

Current Situation

- Entitlements are automatically escalating and squeezing all discretionary spending, particularly national security
- Tax burden is rising to historical high
- Owners of U.S. debt are, increasingly, off-shore
- Dramatic shift in federal spending towards elderly and health care
- Consequences of inaction are distant, uncertain, and diffuse
- Solutions are painful, immediate, and specific
  - Raise Taxes
  - Cut entitlement benefits
  - Reduce discretionary programs (DoD is largest)

Preparing the Corps

- **We can't really solve the fiscal tsunami**
  - All 13 appropriations can be zero and still not fix the gap between total revenue & entitlement expenditure
- **But we can help prepare the Marine Corps by:**
  - Having well documented requirements for resources
  - Strong controls on spending (we keep track of our $20B+)
  - Improving our processes to get the biggest bang for the buck
    - **Embrace Continuous Process Improvement (CPI)**

We Cannot Evacuate But We Can Prepare for the Fiscal Tsunami

Disciplined Requirements
Fact-based requirements.

Leaders who request Marine Corps resources for their organizations, should be required demonstrate progress in all 3 disciplines.

Disciplined Execution
Strong controls to keep track of what we've got.

Disciplined CPI
Improved effectiveness. Reduced waste.

What is CPI?

- **A way to strengthen warfighting capability and combat readiness by using proven process improvement methodologies.**
- **The three primary tools are:**
  - **Six Sigma**: Focuses on reducing variation and increasing quality/reliability
  - **Lean**: Focuses on reducing process waste
  - **Theory of Constraints (TOC)**: Focuses on identifying and eliminating constraints in a process

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USMC CPI Goals

- **Focus (primarily) on improving combat readiness and warfighting capability rather than cost reduction**
- **Continuously improve support processes by applying CPI/LSS process improvement tools**
- **Increase speed of decisions, work, transactions, and paperwork; reduce overhead; improve safety**
- **Institutionalize CPI by creating an organizational capability and a culture of continuous improvement**

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CPI Program Office Provides:

- **Cadre of SMEs (MBB and BB) to assist leaders/organizations with CPI**
- **Training, Coaching, and Mentoring**
- **Certification Standards, Standard Tools, Body of Knowledge (BoK), Policy and Doctrine to ensure success**
- **Standard method to report results**

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CPI Engagement Process

1-2 hours – Meet with the Senior Leader to determine organizational needs and explain CPI Support Team role	**Discovery/Exploratory Session**
3 hours – Provide CPI overview, organizational commitment and preparatory actions required	**Senior Leader Desk-side Training**
2-3 Days – Determine readiness of requesting organization (Interviews)	**Organizational Assessment**
2 days (together or separate 1-day sessions) Prepare Senior Leaders & Project Sponsors to lead & support successful implementation	**Senior Leader/Project Sponsor Training**
2-4 Days – Senior Leaders map Key Processes and identify/prioritize CPI Opportunities	**Senior Leader Planning Session**
Appropriate training conducted and CPI opportunities/events implemented	**GB/BB Training & Event Execution**

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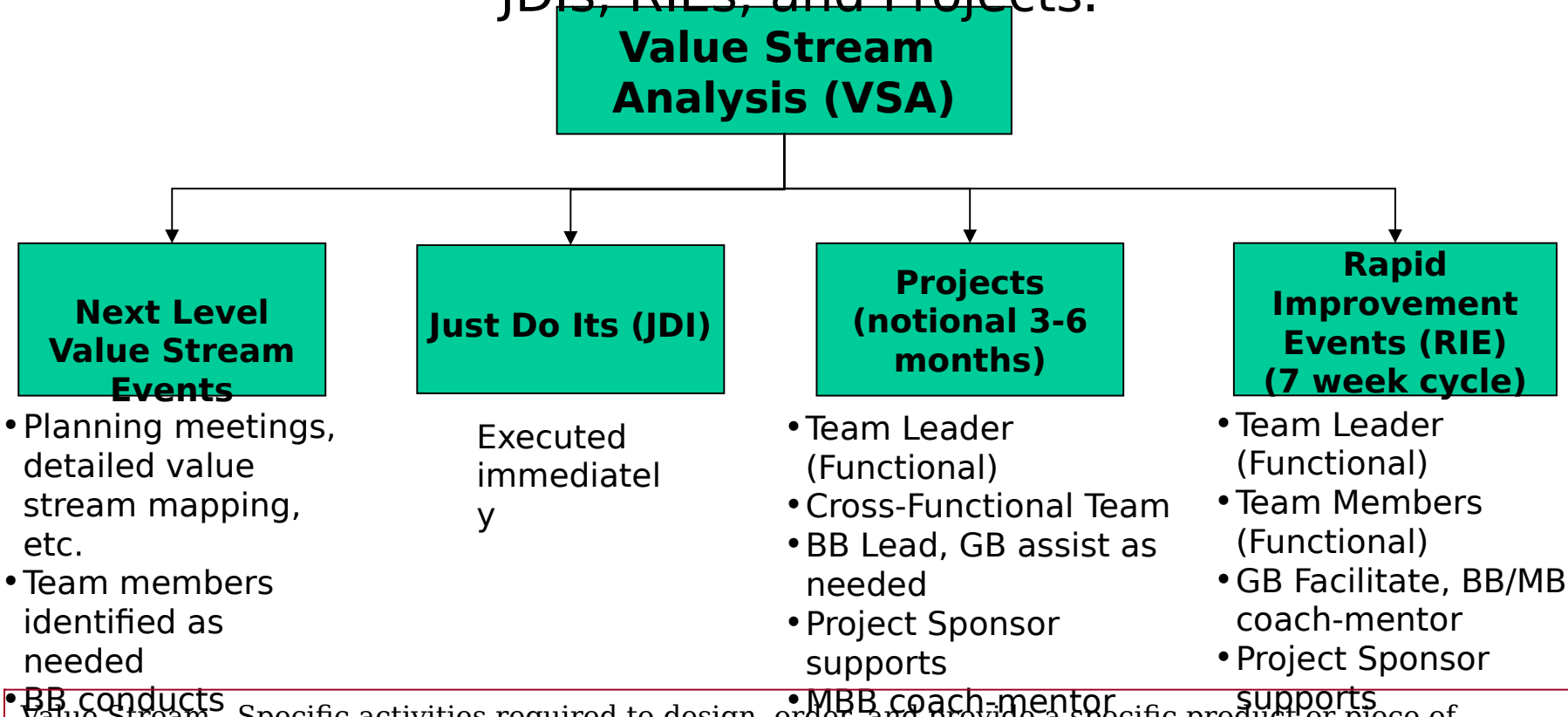
GB/BB Training/ Opportunity Execution

The output of a VSA is a prioritized list of improvement opportunities which include next-level Value Stream Events, JDIs, RIEs, and Projects.


Value Stream Analysis (VSA)
Next Level Value Stream Events
Just Do Its (JDI)
Projects (notional 3-6 months)
Rapid Improvement Events (RIE) (7 week cycle)
• Planning meetings, detailed value stream mapping, etc.
• Team members identified as needed
• BB conducts
• MBB coach-mentor
Executed immediatel y
• Team Leader (Functional)
• Cross-Functional Team
• BB Lead, GB assist as needed
• Project Sponsor supports
• MBB coach-mentor
• Team Leader (Functional)
• Team Members (Functional)
• GB Facilitate, BB/MBB coach-mentor
• Project Sponsor supports

Value Stream: Specific activities required to design, order, and provide a specific product or piece of information, from concept to launch, order to delivery into the hands of the customer. In DoD, a term used to encompass all the planning, execution, products, and services that go into an organization-wide process to create value for the customer.

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Key Elements of CPI

- **Leadership support, commitment, and involvement**
- **Organizational capability**
  - Building capability to help ourselves
  - **Not** having outside agents "do something to, or for, us"
- **Effective program infrastructure**
  - Program Office,
  - Standard Tools
  - Training the "right people"
- **Strategically aligned CPI projects focused on readiness**
- **Shared information and knowledge**
  - Continuous Process Improvement System (CPIMS)
- **Benefits retained by participating organizations**

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CPI Training Levels

- **Level I CPI (aka Green Belt).**
  - 40 Hours training
  - Works CPI as part of normal duties.
  - Duties: Apply CPI methodologies to improve daily work.
- **Level II CPI (aka Black Belt).**
  - 160 hours training
  - Primarily full time.
  - Duties: Provide expertise to CPI projects. Teach and coach part time Level I (Green Belts) personnel.
- **Level III CPI (aka Master Black Belt).**
  - Additional training.
  - Full time.
  - Duties: Provide expertise to highly complex CPI projects. Teach and coach Level II (Black Belts) personnel. Develop curriculum, methods, standards. Help replicate projects.

CPI Benefits

- Type 1 Benefits
  - Hard Dollar Savings (Retained by the Organization)
  - Examples: Reduced contract cost, whole man-year eliminated
- Type 2 Benefits
  - Soft Savings
  - Examples: Cost avoidance, partial man-year saved
- Type 3 Benefits
  - Other benefits
  - Examples: Increased customer satisfaction, improved workplace safety, and quality of life

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CPI Makes a Difference

- **Reduced Urgent UNS process in CD&I from 131 days to 58**
- **Reduced AAV repair line at Barstow from 140 days to 125, defects by 40%, and reduced costs**
- **Increased marine MRAP final outfitting from 5 per day to 50 at Charleston**
- **Projected a savings of over a million dollars a year at Parris Island by redesigning the clothing inventory process**
- **Reduced cell phone costs in Hawaii by 72%**

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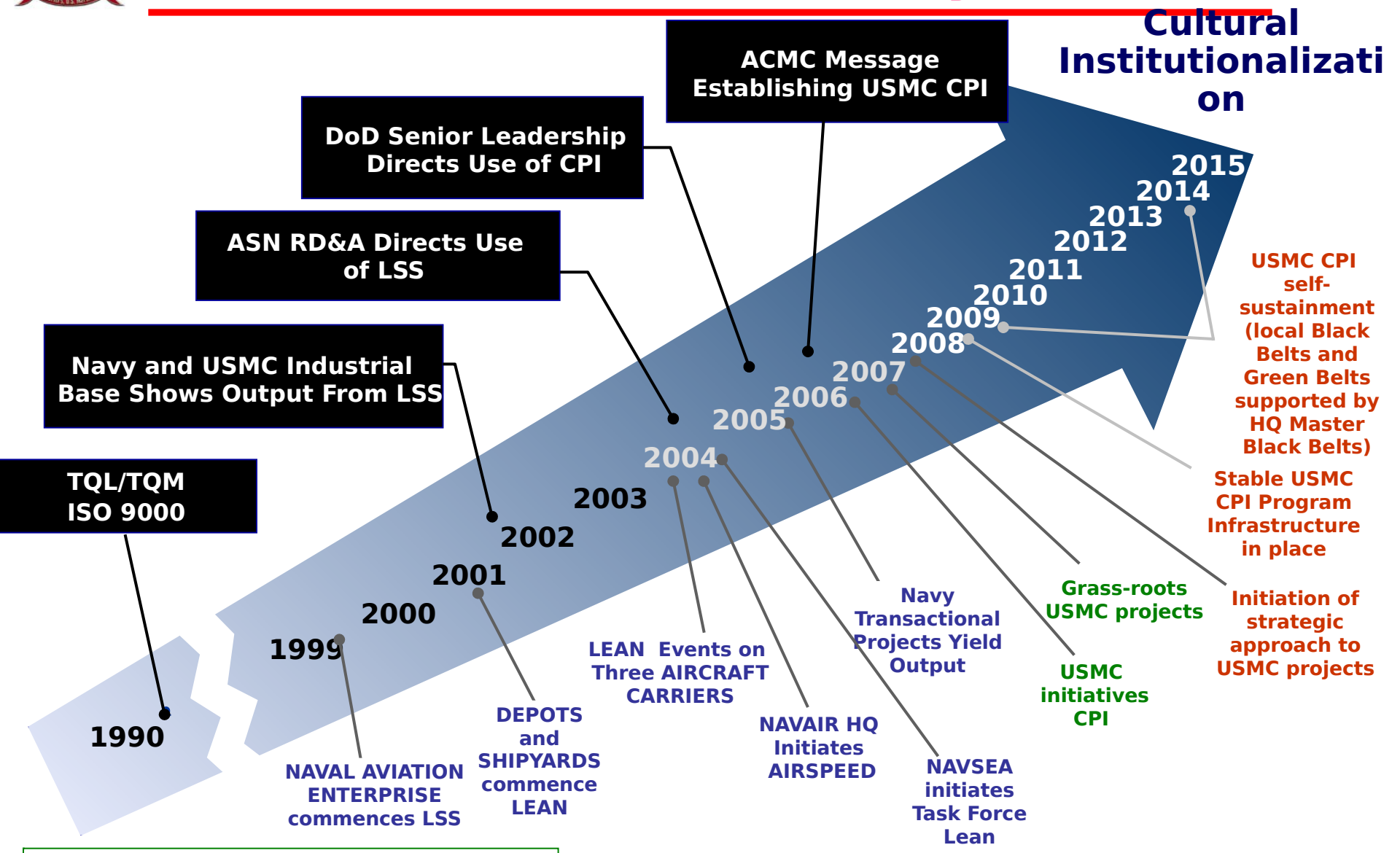
The CPI Journey



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CPI Is Part of Our Culture

Innovation has always been a key component of Marine Corps tradition and our style of leadership…

Leaders should make it their duty to bring subordinates' ideas to the surface …and protect them when innovation fails or mistakes are made.

- Leading Marines (FMFM 1-0/MCWP 6-11)

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A-76

- Determines the most cost effective provider for commercial services through direct competition
- Competes In-House Workforce vs. Contract
  - Work requirements set by Commander and Chain-of-Command
- Competition works
  - Historically 30% savings from competition - validated
  - Post award annual assessments indicates acceptable performance
- Other Benefits
  - Frees other resources (Marines) – one battalion since 2002
  - Documents requirements
  - Establishes and maintains cost control and discipline

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NDAA Changes

- FY08 National Defense Authorization Act
  - OMB may not dictate use of A-76 for a DoD activity
  - A Military Department is no longer required to re-compete a function at the end of its performance period
  - A contractor may not receive a competitive advantage due to lower Health and Retirement Benefits*
  - New or contracted work may be brought back in-house without A-76, provided it is justified by an economic analysis

* Potentially reduces competition

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NDAA Changes (Cont.)

- FY09 NDAA (HAC & SAC Markups)
  - Plan a moratorium on A-76
    - Sense of Congress is driving the issue
    - Employee unions lobbied for change
    - Presidential election year causes a wait-and-see attitude
    - GWOT impacts on military demand relaxation of competitions

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MEO Data
(This was the Recompetition Schedule)

Managing Organization	Function	Exec. Pd Start	End Date (Last Pd)	MEO FTE	Start Prel. Plg	Start Prel. w. 3 yr extension
MCB Quantico	Facilities	4/23/2003	4/22/2008	246	5/1/2007	~~10/25/2009~~
MCAS Cherry Point	Facilities	10/1/2002	10/1/2005	202	4/4/2004	~~4/4/2007~~
MCLB Albany	Environ.	10/1/2002	9/30/2005	14	4/3/2004	~~4/3/2007~~
MCLB Albany	Facilities	2/11/2004	2/10/2007	52	8/14/2005	~~8/14/2008~~
MCRD Parris Island	Facilities	3/1/2003	2/29/2008	98	9/1/2006	9/1/2009
MCRD Parris Island	Motor T	7/21/2003	7/20/2008	34	1/22/2007	1/22/2010
MCLB Barstow	Facilities	10/1/2001	9/30/2008	143	4/4/2007	4/4/2010
MCAS Yuma	Facilities	1/4/2002	1/3/2009	99	7/8/2007	7/8/2010
MCB Hawaii	Facilities	3/7/2004	3/7/2009	152	9/9/2007	9/9/2010
MCAGCC 29 Palms	Facilities	12/1/2003	11/30/2010	66	6/3/2009	6/3/2012
Lejeune	MISC	4/1/2005	4/1/2010	124	10/3/2008	10/3/2011
Pendleton	Facilities	1/2/2005	1/2/2012	258	7/6/2010	7/6/2013
MCRD San Diego	Env. &	2/1/2005	1/31/2013	72	8/4/2011	8/4/2014
			Total	**1560**		

Quantico – Completed Preliminary Planning under A-76 resulting in their request to continue effort as an HPO. They are submitting a plan to use LSS to achieve HPO status.

Cherry Point and Albany - Requested and received deferral until 2010 (extended MEO)

Parris Island - Submitted HPO package currently at ASN

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Now what?

- How do we maintain the successes you have achieved and continue to improve performance?
- Options
  - A-76 competitions
  - Convert to HPOs (BPR, CPI and Lean Six Sigma are management tools that can result in HPOs)
  - Continue existing MEOs
- Requirements for any initiative
  - Establish and maintain requirements document
  - Establish baseline (cost and performance)
  - Identify/Implement process improvements
  - Validate/Monitor results

Define

Measure

Analyze

Implement

Control

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High Performing Organizations (HPOs)

- Requirement document is required
  - PWS-like document
  - Baseline cost and performance established
- Business Process Re-engineering (BPR)
  - Lean Six Sigma process (DMAIC)
  - Draft DoD HPO guidance establishes the program
  - Alternative to A-76
- Performance accountability
  - Letter of Obligation (LOO) is a promise to perform
  - Annual Assessment (report) - Tracked via DCAMIS (OSD visibility)
- HPO plans shown on PB42 and credit toward overall accomplishment of the current President's Management Agenda

USMC can determine these requirements, "credit" is secondary

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OUR GREATEST RESPONSIBILITY IS TO BE GOOD ANCESTORS.

– JONAS SALK

Questions? Comments? Discussion?

Thank you!